January 27, 2023

Pioneer Polyleathers Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Term Loan	2.10	10.00	[ICRA]A- (Stable); reaffirmed, assigned for enhanced amount
Long-term – Fund-based Cash Credit	55.00	62.00	[ICRA]A- (Stable); reaffirmed, assigned for enhanced amount
Short-term – Non-fund Based	10.00	33.00	[ICRA]A2+; reaffirmed, assigned for enhanced amount
Long-term –- Unallocated	7.90	0.00	-
Total	**75.00**	**105.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action factors in the healthy market position of Pioneer Polyleathers Private Limited (PPL) in the PVC flex industry, which is expected to continue in a largely fragmented market. The rating action takes into account PPL's ongoing efforts to diversify through new products development, which is expected to fuel growth, going forward. The ratings also draw comfort from the low customer concentration risk and geographical diversification. The rating further considers the low gearing, healthy coverage indicators and adequate liquidity characterised by limited reliance on external debt.

However, the ratings continue to be constrained by PPL's weak return metrics and working capital intensive nature of operations. The ratings factor in significant receivables overdue for more than six months, which remains a concern. Also, underutilisation of the available capacities owing to intense competition, which has resulted in over-supply in the market has reflected in weak returns, expected to improve only gradually with the current capacities being diverted towards new product development. The ratings further remain constrained by the volatility in raw material prices and forex rate fluctuation, which might impact its profitability. Nevertheless, the company's low indebtedness with limited long-term obligations supports its financial and liquidity profile.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that PPL will continue to benefit from its experienced management team, established presence in the flex banner business along with an improving demand outlook after being impacted by the pandemic. Moreover, PPL's product diversification plans will lower its dependence over PVC flex sales over the medium term.

Key rating drivers and their description

Credit strengths

Established position in the domestic market – PPL is one of the largest flex sheet manufacturers in India and enjoys a sizeable market share. It has established relationships with customers and suppliers, which help in managing the business efficiently. Operational since 2008, PPL was one of the first domestic manufacturers of PVC flex banners in the organised segment in India. The company also enjoys its lengthy association and healthy relationships with dealers in this industry.

Low indebtedness and healthy coverage indicators – The company has gradually reduced its reliance on external debt, particularly working capital debt. The company does not have any major long-term debt on its books and, subsequently, there is limited repayment, going forward. However, the company has recently availed Rs. 10 crore of term loan to fund its capex requirement in the adhesive tapes segment. The gearing of the company remains strong at 0.09 time and 0.01 time, as on

March 31, 2022 and December 31, 2022, respectively. The coverage indicators remained healthy in FY2022 and is expected to remain healthy in FY2023 as well. As on December 31, 2022, the company reported interest coverage of 19.75 times, TOL/TNW of 0.18 time and DSCR of 10.26 times. ICRA also notes that there has been a buyback through equity infusion by the existing promoter.

Product mix diversification augurs well for future growth – The major source of the company's revenue is still from the signage division, which includes sales from PVC flex banners, foam board and self-adhesive vinyl sheets. However, with expected limited upside in the growth of the segment, the company has stepped up its efforts to diversify the product mix in the other segments such as the decorative and tapes segment. The company is currently planning to set up capacity in the tapes segment and develop several products within this tapes segment, which is expected to significantly scale up in the next 3-4 years. Similarly, in the decorative segment, the company is currently generating revenue but at a lower scale and is expected to scale up gradually in the next 3-4 years.

Credit challenges

Modest returns metrics – PPPL's profitability remains moderate with operating margin of 6.89% in FY2022 as compared to 6.97% in FY2021. In the current fiscal, the margins are expected to improve on account of better absorption of fixed overheads and cooling off of input prices. However, the RoCE of the company at 4.30% in FY2022 remains weak as a large part of its capacities remain unutilised. The RoCE is expected to gradually improve as unutilised capacities will be devoted towards other segments, which operate in relatively higher margin businesses as compared to the signage division.

Intense competition from fragmented industry – The intense competition from the unregulated industry pressurises the company's revenues and profitability as the PVC flex segment has over-capacity in the market, which has further resulted in over supply and limited supply in an industry with limited market size.

Susceptibility to fluctuation in raw material prices and forex – The company remains vulnerable to raw material price fluctuation and exchange rate fluctuation on account of its dependence on raw material imports. The extent of natural hedge has also reduced, given the declining trend of exports in the company. However, the company passes on the price difference to its clients to a large extent.

High working capital intensity – The company's working capital intensity of operations continues to be high owing to high receivables and inventory requirement in the business. The company has managed to significantly bring down its receivables and inventory levels, resulting in NWC/OI of 36% in FY2022 as compared to 58% in FY2021. A significant share of receivables overdue for more than six months continues to remain a concern.

Liquidity position: Adequate

PPL's liquidity position remains **adequate** with expected cash flows from operations to be sufficient against nominal repayment obligations for FY2023. Further, the company has cash and bank balances to the tune of Rs. 7.6 crore as of December 2022, along with Rs. 62 crore of healthy cushion in working capital facilities, which lends comfort. The company does not have any major capex plans.

Rating sensitivities

Positive factors – ICRA could upgrade PPL's ratings if there is an improvement in its scale of operations and strengthening of its business profile through product diversification. Improvement in profitability and sustenance of coverage indicators would support a rating upgrade.

Negative factors – Significant decline in operating income and profitability, or sizeable build-up in receivables position impacting the company's liquidity position can lead to a rating downgrade. Specific credit metrics that could lead to a downgrade of PPL's rating include interest coverage of less than 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 2005, PPL manufactures digital print media products such as PVC flex banners and PVC foam sheets that are used for indoor/outdoor advertising. The company is the first and the largest domestic manufacturers of PVC flex banners with backward integration into manufacturing knitted polyester fabric. In addition to PVC flex banners, which are used in hoardings, banners and bill boards, PPL manufactures PVC foam sheets (a lightweight and strong material used for pasting/mounting of digital prints for indoor advertising). The company has a manufacturing unit in Pantnagar (Uttarakhand) with an annual installed production capacity of 66,000 MT of PVC flex banners (increased from 36,000 MT in December 2018), 5,000 MT of PVC foam sheets, 5,600 MT of self-adhesive vinyl sheets and 910 lakh sq. m. of knitted fabric.

Other related products manufactured by the company include PVC films, PVC tarpaulin (by-product), self-adhesive film of plastics (vinyl), paper tubes and other related items. Gradually, the company is diversifying into other value-added products and is expected scale up in the near future.

Key financial indicators (audited/provisional)

Pioneer Polyleathers Private Limited	FY2021 (A)	FY2022 (A)	9MFY2023 (Prov.)
Operating income	187.45	265.35	226.42
PAT	0.78	5.63	7.83
OPBDIT/OI	6.97%	6.89%	8.03%
PAT/OI	0.42%	2.12%	3.46%
Total outside liabilities/Tangible net worth (times)	0.17	0.32	0.18
Total debt/OPBDIT (times)	0.71	1.14	0.06
Interest coverage (times)	3.96	5.86	19.75

Source: Company,
PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. Crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) *	Date & rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jan 27, 2023	Nov 18, 2021	Aug 05, 2020	-
1	**Term Loan**	Long Term	10.00	10.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
2	**Cash Credit**	Long Term	62.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
3	**Non-fund Based**	Short Term	33.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-
4	**Unallocated**	Long term	-	-	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-

Source: Company,

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund Based Term Loan	Simple
Long-term - Fund Based Cash Credit	Simple
Short-term - Non-Fund Based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan**	December 2022	NA	January 2028	10.00	[ICRA]A- (Stable)
NA	**Cash Credit**	NA	NA	NA	62.00	[ICRA]A- (Stable)
NA	**Non-fund Based**	NA	NA	NA	33.00	[ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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